VZCZCXRO3444
PP RUEHROV
DE RUEHDS #1015/01 1201404
ZNR UUUUU ZZH
P 301404Z APR 09
FM AMEMBASSY ADDIS ABABA
TO RUEHC/SECSTATE WASHDC 4600
INFO RUEPADJ/CJTF HOA PRIORITY
RUEAIIA/CIA WASHINGTON DC PRIORITY
RUEKDIA/DIA WASHINGTON DC PRIORITY
RUEWMFD/HQ USAFRICOM STUTTGART GE PRIORITY
RUEKJCS/JOINT STAFF WASHINGTON DC PRIORITY
RUEHLMC/MILLENNIUM CHALLENGE CORP PRIORITY
RUCNIAD/IGAD COLLECTIVE
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RUEATRS/DEPT OF TREASURY WASHINGTON DC

UNCLAS SECTION 01 OF 02 ADDIS ABABA 001015

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E.O. 12958: N/A
TAGS: ECON EINV EFIN ETRD ET
SUBJECT: FOREX CRUNCH IMPERILS REPATRIATION OF PROFITS?

REF: A) ADDIS ABABA 675
B) 2008 ADDIS ABABA 02569

ADDIS ABAB 00001015 001.2 OF 002

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SUMMARY

¶1. (SBU) As Ethiopia continues to suffer from a severe forex shortage, a growing number of foreign companies have begun to echo concerns about not being able to repatriate profits outside of Ethiopia. No American firms have yet reported being prohibited from repatriating profits abroad, but most major U.S. firms in Ethiopia reinvest their profits in-country rather than repatriating them. Still, several British firms have reportedly been barred from taking profits outside of the country. Although the level of concern remains mixed among foreign owned businesses, the Government of Ethiopia (GoE) argues that it is complying fully with its legal decree allowing foreign businesses to repatriate profits, but acknowledges that the central bank's own rationing of forex to private banks effectively limits the ability of the latter to issue forex to companies for any reason. In addition, concerns seem to be compounded as the macroeconomic situation worsens and the GoE continues to cut credit lines to domestic borrowers as part of an aggressive inflation dampening strategy. To date, new private investors have become increasingly reluctant to deploy significant amounts of capital or further invest in Ethiopia as a result of the risk of not being able to repatriate dividends, particularly on short horizon projects. END SUMMARY.

PROFIT REPATRIATION CONCERNS MIXED

¶2. (SBU) The ability of businesses and investors to repatriate profits has become the latest concern tied to Ethiopia's acute forex crisis. However, foreign investors' attitudes concerning their ability to successfully repatriate profits in the short-term remain mixed. Notably, the British Ambassador to Ethiopia told Pol/Econ Counselor that many British companies and investors have complained recently about their inability to secure forex to repatriate profits from the National Bank of Ethiopia (NBE). In addition, a prominent

American private equity investor in Ethiopia told EconOff that his firm continues to maintain a very cautious capital deployment strategy in Ethiopia due to concerns of the forex shortage preventing him from taking profits home. The investor explained that the opportunities are many in Ethiopia, but the risk of not being able to redeem profits from short-term ventures continues to retard the rate and amounts of his company's potential capital investments. In addition to the forex crunch, the overall downward slide of the Ethiopian economy, as evidenced by the sharp declines in coffee exports, has increased worries among many new private investors. Validating the sentiment of cautious new private investors, the foreign direct investment (FDI) inflow statistics in Ethiopia do not paint a rosy picture. For example, only USD 17.7 million in FDI was deployed for investments in 2007/08. This operational capital represents a small fraction of the total stock of USD 4.9 billion that has been approved for investment since 1993, but largely sits idle.

¶3. (SBU) In spite of the concerns raised by British firms and some new investors, large American or American-affiliated companies such as Coca Cola Sabco and Ernst and Young maintain that they do not intend now to begin to repatriate their invested capital and future dividends in light of the forex crunch. However, the CEO of the South Africa-based, Coca Cola Sabco, Fanus Nothnagel, previously admitted to EconOff that the future of Coca Cola Sabco's long-haul strategy remains uncertain as they continue to operate on an ad hoc emergency forex lifeline from the Commercial Bank of Ethiopia (CBE). Also, in light of Coca Cola's brief March production shutdown due to lack of forex, Solomon Shiferaw, Coca Cola Sabco's in-country marketing and sales manager explained to EconOff that the company is less than confident about pursuing a strategy of profit repatriation while they could barely secure minimal funds to operate their production facilities (Ref A). Shiferaw went on to explain that the company continues to see its monthly licensing bills to Coca Cola

headquarters in Atlanta mount as they have not been able to acquire forex. Although they allocate funds in local currency to service debts owed to their headquarters, the funds continue to lose value due to the depreciation of the local currency. Zemedeneh Negatu, chief of party at Ernst and Young Ethiopia expressed a similar steadfastness to maintaining his company's business interests in Ethiopia and explained to EconOff that his company has reinvested 100 percent of its profits back into Ethiopia. He said that they have never tried repatriation and believes that the current forex crisis will be short-lived.

GOE SAYS REPATRIATION NOT A PROBLEM

¶4. (SBU) The GoE continues to stand by its 2002 Investment Proclamation, which states that 100 percent of profits can be repatriated by all foreign investors. A representative at the NBE's Foreign Exchange and Reserve Management Department told EconOff that there has not been an official change of policy with regard to the repatriation clause in Ethiopia's Investment Proclamation. In fact, the NBE continues to be required by law to release forex resulting from profits as long as all the required documents, including audited financial statements, are presented to the NBE by investors. The NBE would then write a letter to the beneficiary's bank for payment in forex. The NBE representative explained, however, that due to the current foreign exchange crunch commercial banks may end up delaying payments, but as a matter of law cannot deny investors seeking the repatriation of profits. It is not clear how long the delay of payments could be in light of the long lines mounting at most banks and ultimately the GoE's priority rationing of forex to exporters.

COMMENT

¶5. (SBU) It is evident that the forex crisis has put Ethiopia in not only a precarious economic situation, but moreover has made it intensely difficult for the country's banks to fulfill commitments

to private sector investors to repatriate their profits. As the NBE continues to heavily ration forex reserves and maintains strict controls on the financial sector, the GoE runs the risk of alienating much-needed private investors who largely remain on the sidelines with significant capital to deploy in-country. Although the forex crunch has elicited disparate investment strategies and responses among firms already operating in-country (some positive and others negative about investment prospects), the real economy in Ethiopia continues its downward slide. It is important to note, however, to the GoE's credit, that inflation figures have begun to abate of late as general annual inflation dropped to 23.7 percent in March from 32.9 percent in February and 64.2 percent in July 2008. Unfortunately, the long-term economic consequences of the GoE's inflation dampening strategy of cutting credit and rationing forex will no doubt continue to choke long-term FDI and overall business activities. Post will continue to monitor the developments with Ethiopia's forex situation and will push the GoE to consider more liberal and innovative approaches to allow the economy to not only function, but grow. END COMMENT.

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